# LEGISLATIVE SERVICES AGENCY
## OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
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## FISCAL IMPACT STATEMENT

**LS 6122**
**BILL NUMBER:** HB 1363

**DATE PREPARED:** Nov 19, 2000
**BILL AMENDED:**

**SUBJECT:** Renewable energy tax credit.

**FISCAL ANALYST:** Diane Powers
**PHONE NUMBER:** 232-9853

**FUNDS AFFECTED:** X GENERAL
X DEDICATED
FEDERAL

**IMPACT:** State

**Summary of Legislation:** This bill provides that a taxpayer who owns an existing building or purchases a new building is entitled to a credit against the taxpayer's state tax liability if the taxpayer installs a qualified energy system in a building located in Indiana. The bill defines "qualified energy system" to include solar energy systems, geothermal systems, hydroelectric systems, and certain energy conservation measures. It provides that in the case of a qualified energy system installed in a single family dwelling, the amount of the credit equals the lesser of: (1) $3,000; or (2) 25% of the costs of the qualified energy system and its installation. The bill provides that in the case of a qualified energy system installed in a building that is not a single family dwelling, the amount of the credit equals the lesser of: (1) $10,000; or (2) 25% of the costs of the qualified energy system and its installation. It also provides that any amount of the credit that exceeds a taxpayer's state tax liability for a taxable year may be carried forward to succeeding taxable years. The bill requires the Department of Commerce to adopt rules for determining if an energy system is a qualified energy system and requires a taxpayer to obtain a qualified energy system certificate from the Department of Commerce in order to claim the credit for a particular energy system.

**Effective Date:** Upon passage; January 1, 2002.

**Explanation of State Expenditures:** The Department of State Revenue (DOR) will have additional administrative expenses revising tax forms, instructions and computer programs to accommodate this new credit.

The Department of Commerce (DOC) is required to promulgate rules for determining the standards of a qualified system and must approve taxpayers' applications for a qualified energy system certificate. Depending on the number of applications, this will increase administrative expenses for DOC.

**Explanation of State Revenues:** This bill establishes an energy system credit effective for tax years beginning January 1, 2002. A taxpayer is entitled to a credit for the installation of a qualified energy system installed in a building located in Indiana after December 31, 2001. A qualified energy system is defined as equipment designed primarily for the collection, transfer, distribution, storage, or control of solar or wind energy. The tax credit for an energy system installed in a single family dwelling is limited to the lesser of $3,000 or 25% of the cost paid for of installation and materials. For energy systems installed in buildings which are not a single family dwelling, the credit is limited to $10,000 or 25% of the cost paid for installation and materials.

The tax credit may be applied to a taxpayer's tax liability for Gross Income, Adjusted Gross Income, Supplemental Net Income, Bank, Savings and Loan Association, Insurance Premiums, and Financial Institutions taxes. The tax credit may not exceed the taxpayer's state income tax liability for that tax year, but the excess may be carried over to subsequent years. If more than one taxpayer owns the building in which the qualified energy system is installed, each taxpayer is entitled to the credit in proportion to their ownership interest in the building. The tax credit expires January 1, 2011.

This tax credit is similar to the credit enacted by P.L. 20 - 1980 which became effective July 1, 1981, and expired January 1, 1985. Based on DOR's Individual Income Tax statistics, the following number of taxpayers and amount of credits claimed from 1981 to 1994 is shown below. (This credit was applicable for three and one half years but affected revenue collections for 14 years due to the carryforward provision of the credit.)

| Tax Year | # Taxpayers | $ Credit Claimed | Average Credit |
|---|---:|---:|---:|
| 1981 | 1,250 | $726,521 | $581 |
| 1982 | 2,498 | $1,342,201 | $537 |
| 1983 | 5,251 | $3,737,401 | $712 |
| 1984 | 7,722 | $5,483,031 | $710 |
| 1985 | 11,034 | $8,209,384 | $744 |
| 1986 | 7,323 | $4,071,390 | $556 |
| 1987 | 3,814 | $2,137,877 | $561 |
| 1988 | 1,567 | $622,095 | $397 |
| 1989 | 700 | $210,311 | $300 |
| 1990 | 718 | $133,218 | $186 |
| 1991 | 426 | $174,886 | $411 |
| 1992 | 350 | $93,474 | $267 |
| 1993 | 263 | $45,120 | $172 |
| 1994 | 39 | $4,152 | $106 |

It is not known how many taxpayers will apply for this new tax credit or the number of years that the credit may be carried forward. This credit will affect revenue collections deposited in the General Fund and the Property Tax Replacement Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of Commerce; Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** Department of State Revenue.